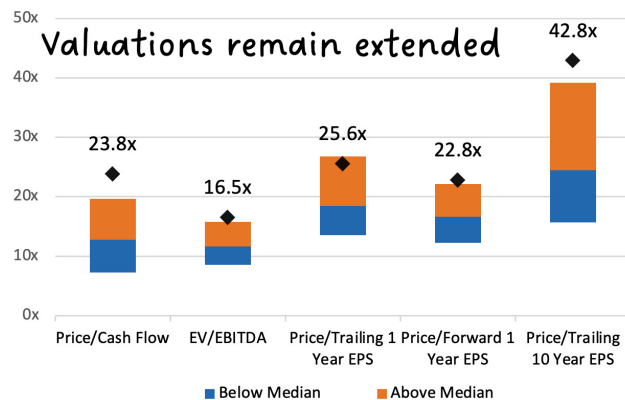




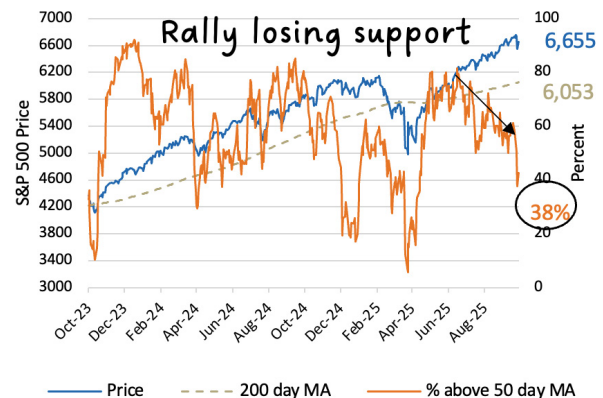
- ▶ We are maintaining a neutral stance on large cap blend equities as we see a more evenly balanced market environment. However, with visibility limited and valuations stretched in parts of the market, our conviction levels remain low. We believe steady positioning and selectivity are warranted.
- ▶ Given how extended parts of the market have become, we expect continued volatility, with both upside and downside risks. However, looking towards 2026, several positives help temper the downside case.
- ▶ Our near-term economic outlook has improved following stronger-than-expected GDP growth in the 2Q, which appears to have continued into the 3Q. The economy, like the market, has been bifurcated, with lower-income consumers showing signs of strain, while higher-income consumers (who account for a greater portion of spending) have remained resilient.
- ▶ The Fed restarted rate cuts in September, and we expect additional cuts, albeit at a gradual pace. Historically, mid-cycle rate cuts have supported equities, but the key questions are how much of this is already priced in and whether the cuts will prove as stimulative as expected. We remain cautious on that point, given the limited rate sensitivity the economy has shown in recent years. This is not necessarily a negative, as AI spending, currently the main economic driver, is not interest rate sensitive.
- ▶ Looking ahead to 2026, a more accommodative Fed, tax cuts from the One Big Beautiful Bill, the World Cup, and the 250th anniversary celebrations should provide some tailwinds for equities. These will be needed to offset headwinds from tariffs and slowing labor-force growth.
- ▶ The 3Q earnings season should bring greater visibility into demand trends and how effectively companies have passed through tariff-related costs. Earnings growth outside the Technology sector is expected to accelerate, and earnings revisions for the remainder of the year are beginning to move higher, albeit modestly.

S&P 500 Index Valuation Ranges



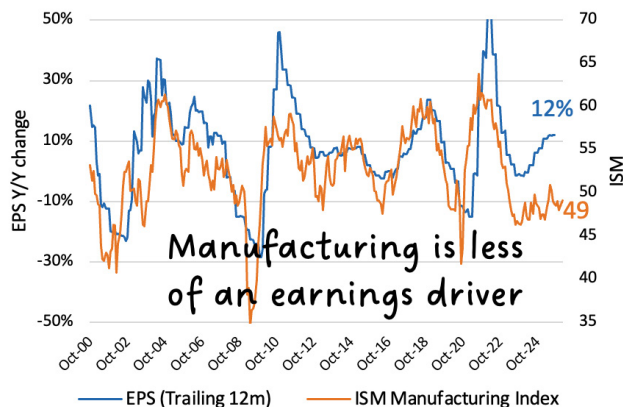
Source: Bloomberg. Based on monthly observations starting in 1996. The minimum and maximum ranges are set to the 5th and 95th percentiles, respectively, to remove outliers. Average percentile rank: 98% as of Sep 2025

S&P 500 Index Participation



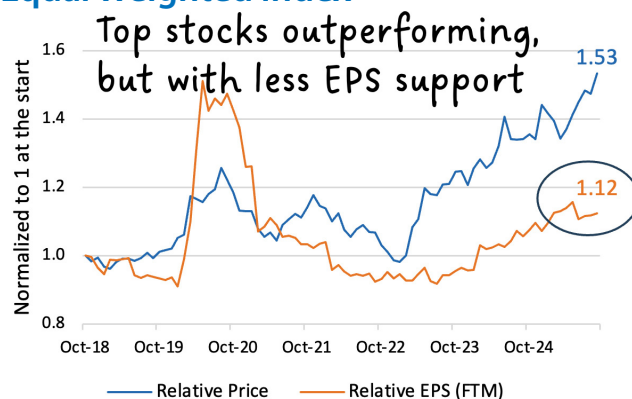
Source: Bloomberg. 2 years of daily data through Oct 10 2025. MA = Moving Average

S&P 500 Index EPS and ISM Manufacturing



Source: Bloomberg. 26 years of monthly data through Sep 2025. ISM advanced 5 months.

S&P Top 50 Index versus S&P 500 Equal Weighted Index



Source: Bloomberg. 7 years of monthly data through Sep 2025

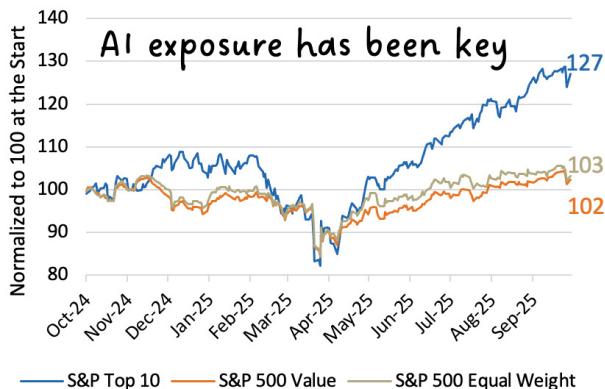


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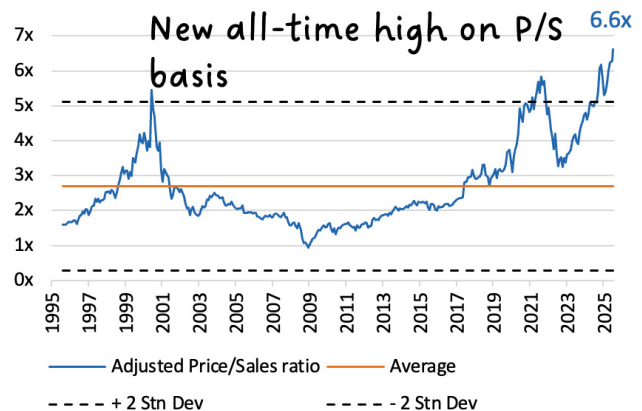
- ▶ We tactically hold a moderate underweight in Growth and remain neutral on Value.
- ▶ Our underweight in Growth reflects both elevated valuations and concentration risk. Just five stocks make up 45% of the Russell 1000 Growth Index. These names are heavily tied to AI, making index performance highly dependent on that theme and increasing stock-specific risk. Our positioning allows us to manage those risks, while still participating.
- ▶ The AI story remains compelling, driven by rapid model progress and capacity expansion to meet strong demand. We believe that AI adoption will continue to grow quickly, with its economic impact extending well beyond the Technology sector – similar to the evolution of the internet. Sectors such as Financials and Industrials are among those most likely to benefit, given their repetitive, data-rich, high-volume, and rules-based workflows.
- ▶ While we are bullish on AI's long-term potential, valuations already reflect a highly optimistic outlook. That doesn't preclude further upside, but the risk/reward balance has become more asymmetric. Over the next few years, we see three possible paths for AI and market leadership. We have ordered these by our probabilistic expectation
 1. **Broad Productivity Gains:** AI lowers costs and boosts efficiency across industries, extending benefits beyond current leaders.
 2. **Cost of Doing Business:** AI adoption becomes essential for competitiveness, but is mostly a cost of doing business. While there is likely to be some productivity gains, the main beneficiaries remain the current leaders. While there will be winners from applying AI technology, returns are likely to be more dispersed.
 3. **Slower Model Progress:** AI adoption continues but fails to meet lofty expectations, and the massive capacity plans in place look excessive. This path would likely entail a bear market with current winners turning into losers.
- ▶ Looking forward, Growth stocks continue to offer the greatest opportunity and risk, though today that risk is unusually concentrated. Value stocks, meanwhile, are more tied to economic conditions and could benefit if growth picks up next year. While we see this potential, meaningful headwinds temper our optimism.

1 Year Price Returns



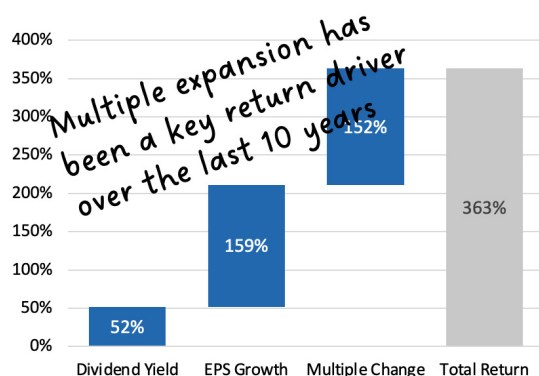
Source: Bloomberg. 1 year of daily data through Oct 13 2025

Russell 1000 Growth Index



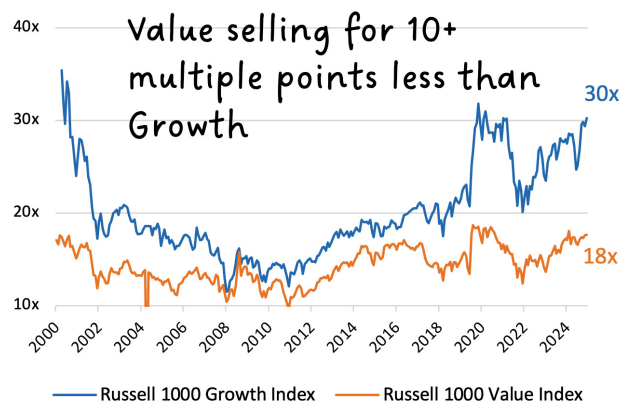
Source: Bloomberg. 30 years of monthly data through Sep 2025

S&P 500 Growth Index Return Composition



Source: Bloomberg. Cumulative total returns over the last 10 years through Sep 2025

Price/Earnings Ratios: Forward 12 Months

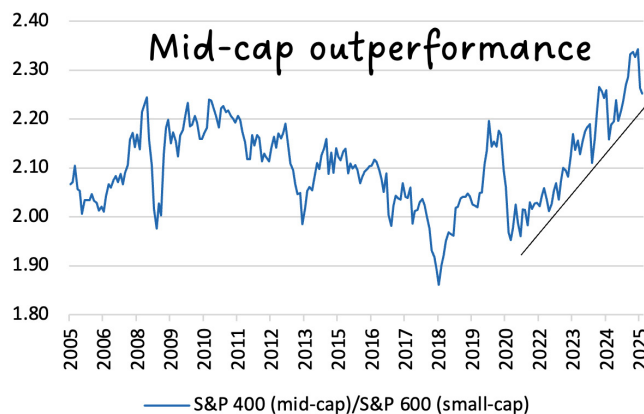


Source: Bloomberg. 25 years of monthly data through Sep 2025



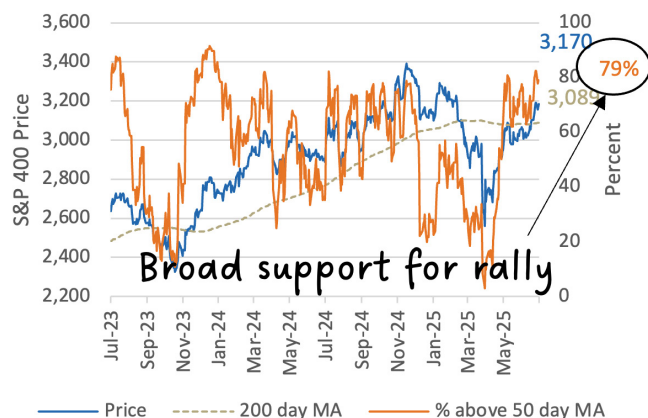
- ▶ We favor mid caps over small caps, viewing them as offering the most attractive risk/reward balance in the current market.
- ▶ That said, we have removed our small cap underweight as the Fed returned to rate cuts, as well as a number of other factors
 - After two years of steady downward revisions, small cap EPS estimates have stabilized over the past five months despite softer growth and tariff uncertainty—suggesting that the worst may be behind us. Consensus now expects small-cap EPS growth to outpace the S&P 500 in 2026.
 - Small caps tend to track industrial production, which should benefit from tariffs and OBBBA-related capital expenditure tax incentives in 2026 and beyond. Early signs of an upturn in manufacturing new orders support this outlook.
 - Small caps remain the only major U.S. equity segment trading below their 30-year median valuation range (based on the S&P 600 index).
 - NFIB small business surveys show a notable uptick in optimism.
 - When rate cuts occur outside of a recession, higher-quality small caps tend to outperform. Notably, the S&P 600 (which excludes non-earners) has recently underperformed the Russell 2000 by more than two standard deviations—a divergence that has occurred only twice in the past 20+ years, and was followed by strong S&P 600 index rebounds.
- ▶ These factors suggest the backdrop for small caps is improving, making them worth consideration for investors seeking diversification and potential outperformance.
- ▶ Earnings growth in 2026 for both small and mid cap indexes is expected to match or surpass the large-cap growth index. Is this a reasonable expectation? Small cap earnings have been in decline for the last 3 years, which creates a very low bar. However, given current valuations, we believe that even half the anticipated growth would be taken positively by investors.

Relative Price Performance



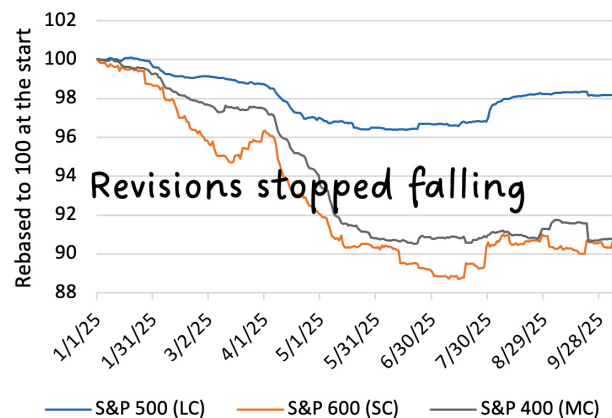
Source: Bloomberg. 20 years of monthly data through Sep 2025

S&P 400 Index Participation



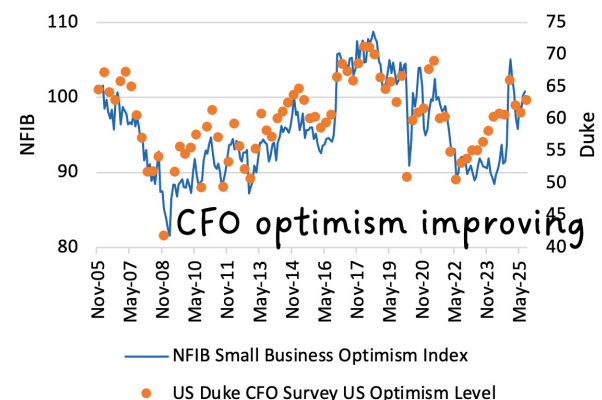
Source: Bloomberg. 2 years of daily observations through Oct 13 2025.
MA = Moving Average

Year-to-Date 2025 EPS Revisions



Source: Bloomberg. Daily bottom-up analyst estimates through Oct 13 2025

CFO Optimism Surveys



Source: Bloomberg. 20 years of observations. NFIB has monthly data through Mar 2025. Duke has quarterly data through Dec 2024.



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The Indexes mentioned are unmanaged statistical composites of stock market or bond market performance. Investing in an index is not possible.

Total Returns								
	September 2025	YTD	2024	2023	2022	2021	EPS Growth Estimate	
							2025	2026
S&P 500 Index	3.6%	14.8%	25.0%	26.3%	-18.1%	28.7%	8%	13%
S&P 500 Index Equal Weighted	1.1%	9.9%	13.0%	13.8%	-11.5%	29.6%	4%	11%
S&P 500 Value Index	1.8%	9.7%	12.3%	22.2%	-5.3%	24.9%	5%	10%
Russell 1000 Value Index	1.5%	11.7%	14.4%	11.4%	-7.6%	25.2%	6%	10%
S&P 500 Growth Index	5.3%	19.5%	36.1%	30.0%	-29.4%	32.0%	15%	16%
Russell 1000 Growth Index	5.3%	17.2%	33.4%	42.7%	-29.1%	27.6%	11%	18%
S&P 400 Index	0.5%	5.8%	13.9%	16.4%	-13.1%	24.8%	0%	17%
S&P 600 Index	1.0%	4.2%	8.7%	15.9%	-16.1%	26.8%	3%	18%
Russell 2000 Index	3.1%	10.4%	11.5%	16.9%	-20.4%	14.8%	1%	21%

Valuations								
	P/E (TTM)	Percent Rank	P/E (FTM)	Percent Rank	P/CF	Percent Rank	P/S	Percent Rank
S&P 500 Index	27.8x	96%	22.1x	98%	23.8x	99%	3.5x	100%
S&P 500 Index Equal Weighted	21.1x	80%	16.8x	87%	13.8x	93%	1.7x	84%
S&P 500 Value Index	22.0x	94%	18.0x	99%	18.6x	96%	2.2x	100%
Russell 1000 Value Index	20.9x	92%	16.9x	94%	17.4x	97%	2.1x	98%
S&P 500 Growth Index	35.9x	98%	27.3x	97%	31.3x	100%	6.7x	99%
Russell 1000 Growth Index	40.7x	93%	29.5x	93%	32.4x	99%	6.6x	100%
S&P 400 Index	20.0x	42%	15.5x	54%	11.8x	62%	1.4x	90%
S&P 600 Index	22.2x	51%	14.5x	36%	12.0x	49%	1.2x	94%
Russell 2000 Index	61.6x	88%	22.5x	72%	16.3x	91%	1.4x	95%

Fundamentals								
	Dividend Yield	Percent Rank	Profit Margin	Percent Rank	ROE	Percent Rank	Net Debt / EBITDA	Percent Rank
S&P 500 Index	1.2%	3%	13.5%	98%	18.3%	94%	1.6	38%
S&P 500 Index Equal Weighted	1.9%	58%	9.1%	68%	11.6%	57%	2.7	63%
S&P 500 Value Index	1.9%	12%	10.9%	96%	14.1%	90%	2.1	43%
Russell 1000 Value Index	1.9%	6%	11.0%	92%	12.9%	66%	2.1	21%
S&P 500 Growth Index	0.6%	9%	20.1%	98%	29.0%	83%	0.7	28%
Russell 1000 Growth Index	0.5%	4%	17.9%	99%	36.5%	97%	0.6	9%
S&P 400 Index	1.4%	43%	8.1%	86%	10.8%	59%	2.5	43%
S&P 600 Index	1.7%	82%	7.0%	95%	3.3%	9%	4.2	90%
Russell 2000 Index	1.3%	33%	4.2%	53%	0.1%	19%	4.7	88%

For Index Definitions see: [TouchstoneInvestments.com/insights/investment-terms-and-index-definitions](https://touchstoneinvestments.com/insights/investment-terms-and-index-definitions)

Source: Bloomberg. Percent ranks are based on 30 years of monthly data as of the end of September; EPS growth estimates based on consensus bottom-up analyst estimates



The Touchstone Asset Allocation Committee (TAAC) consisting of Crit Thomas, CFA, CAIA – Global Market Strategist, Erik M. Aarts, CIMA – Vice President and Senior Fixed Income Strategist, and Tim Paulin, CFA – Senior Vice President, Investment Research and Product Management, develops in-depth asset allocation guidance using established and evolving methodologies, inputs and analysis and communicates its methods, findings and guidance to stakeholders. TAAC uses different approaches in its development of Strategic Allocation and Tactical Allocation that are designed to add value for financial professionals and their clients. TAAC meets regularly to assess market conditions and conducts deep dive analyses on specific asset classes which are delivered via the Asset Allocation Summary document. Please contact your Touchstone representative or call 800.638.8194 for more information.

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